



2006 Proposed Budget Highlights

While Seattle weathered three tough years economically, Mayor Greg Nickels made the hard choices necessary to get City finances under control.

2006 Proposed Budget-At-A-Glance	
General Fund	Total Budget
\$760 million	\$2.9 billion

Now, thanks to these efforts and an improving local economy, the Mayor has \$29 million in additional tax revenues at his disposal for his 2006 Proposed Budget.

The \$29 million represents additional General Fund revenues beyond what were anticipated when the 2005-2006 budget was approved in November 2004.

Real estate excise tax (REET) revenues remain strong as well, providing \$26 million more than initially forecast for infrastructure projects during the same period.

In his 2006 Proposed Budget, Mayor Nickels uses the additional revenues to add high-priority items and one-time investments, restoring several programs that had to be cut in the first part of the decade. As a result, he's enhanced core City services:

- Seattle will hire more police officers and improve their equipment.
- Seattle will hire more firefighters.
- Seattle will increase its support of homeless services.
- Seattle will build additional low-income housing.
- Seattle will pave more streets, build more sidewalks and make other critical transportation investments.

Nickels intends his proposed budget to be sustainable for 2006 and beyond

Second year of 2-year budget

Seattle has a biennial budget. Under this approach, the City Council formally adopts the budget for the first year of the biennium and endorses but does not appropriate the budget for the second year. The second year Proposed Budget is based on the Endorsed Budget and is formally adopted by Council after a midbiennial review.

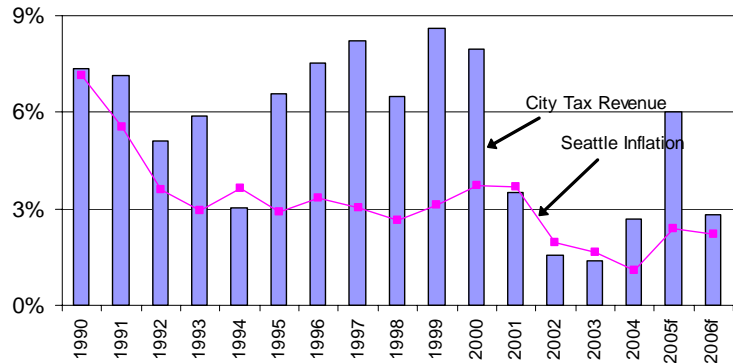
The 2006 budget is a mid-biennium budget. Earlier this year, Mayor Nickels determined the 2006 Endorsed Budget would become his 2006 Proposed Budget with only a minimum number of necessary technical adjustments and new priorities. The City Council agreed with this approach.

OUR ECONOMY IS STRENGTHENING

The forecast for 2005-2006 projects continued stronger-than-inflation growth.

City tax revenues outpaced inflation for most of the 1990s and 2000 before the local recession took hold. Led by the strong growth in 2004, the forecast for 2005-06 projects continued stronger-than-inflation growth.

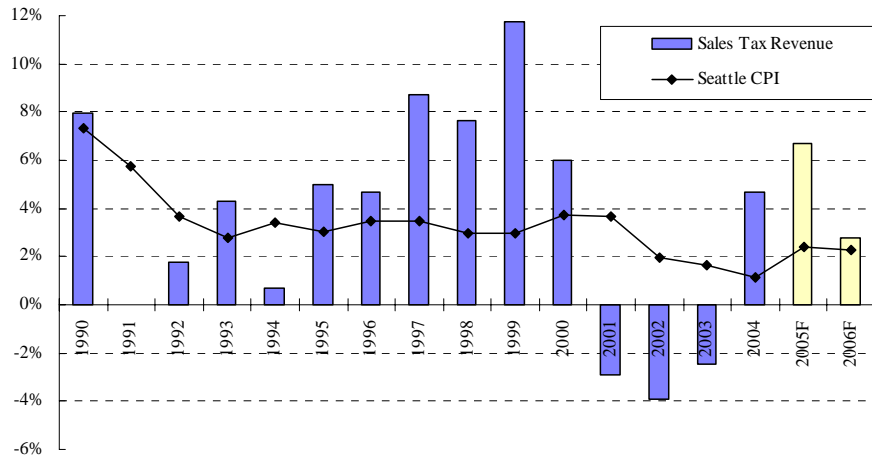
City of Seattle Tax Revenue Growth, 1990-2006



Retail sales tax revenue is forecast to increase by 6.7% in 2005 & then slow in 2006.

In 2004, retail sales tax revenue posted its first annual increase since 2000, with a gain of 4.7%. Revenue growth is expected to rise to 6.7% in 2005, due in part to construction activity for Sound Transit's light rail line, and then slow to 2.8% in 2006. With local inflation expected to be in the 2%-3% range in 2005-2006, revenue growth will exceed inflation both years.

Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2005-06 are forecasts.

REET revenues remain strong.

Revenues from the Real Estate Excise Tax (REET) have grown very rapidly since 2002. This tax is imposed at a rate of 0.5% on the value of all real estate sales. By state law, the proceeds can be used solely for certain capital projects, such as transportation infrastructure and major maintenance of parks, libraries, and general government facilities. Growth in REET stems from a combination of three factors: increases in residential home prices, greater residential sales volume due to low interest rates, and growing investor interest in commercial real estate.

REET revenues grew from \$22.6 million in 2002 to \$27.9 million in 2003 and to \$38.3 million in 2004. Through July 2005, REET revenues are up 32% compared with the same months in 2004. The strong growth in REET has led to significant increases in major maintenance of City facilities, with a particular focus on street paving and other transportation projects.

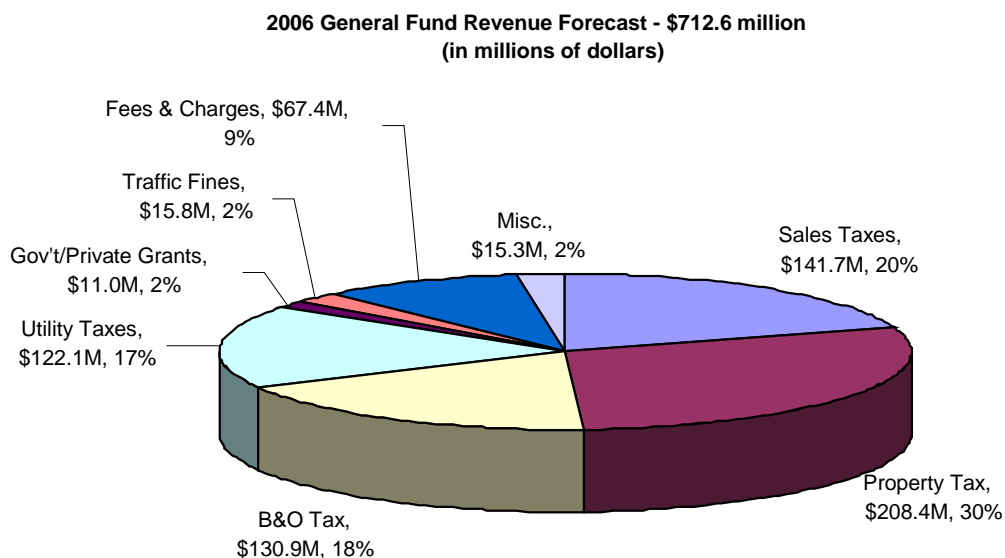
REVENUES: WHERE THE MONEY COMES FROM

Seattle City government has four main sources of revenue supporting the services and programs the City provides its residents:

- **Taxes, license fees, and fines** support activities typically associated with City government, such as police and fire services, parks, and libraries.
- **Fees for services, regulatory fees, or dedicated property tax levies** partially or completely support certain City activities. Examples of City activities funded in whole or in part with fees include Seattle Center, parks and recreational facilities, and building inspections.
- **Grant revenues from private, state or federal agencies** support a variety of City services, including social services, street and bridge repair, and targeted police services.
- **Charges to customers for services** fund City utilities (electricity, water, drainage and wastewater, and solid waste).

In 2006, total government revenue, including utilities, is projected to total \$2.9 billion.

In 2006, general government revenue is projected to total \$713 million.

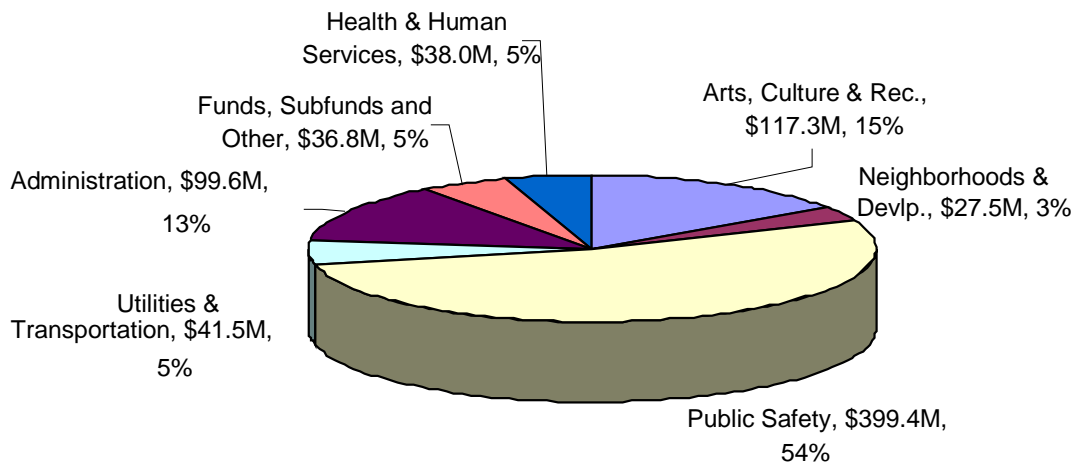


EXPENDITURES: WHERE THE MONEY GOES

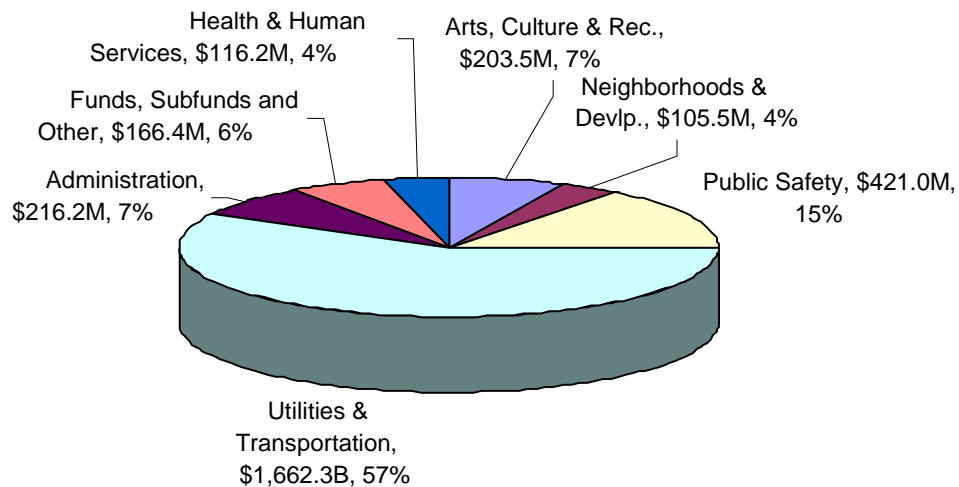
The Mayor and Council have the most discretion over operating expenditures associated with the General Fund, which pays for services such as police, fire, parks and libraries.

The following pie charts show total operating expenses for 2006 by major service category. The first chart represents General Fund expenses; the second the entire budget.

2006 Proposed General Fund Expenditures \$760 million



2006 Proposed Budget - \$2.9 billion



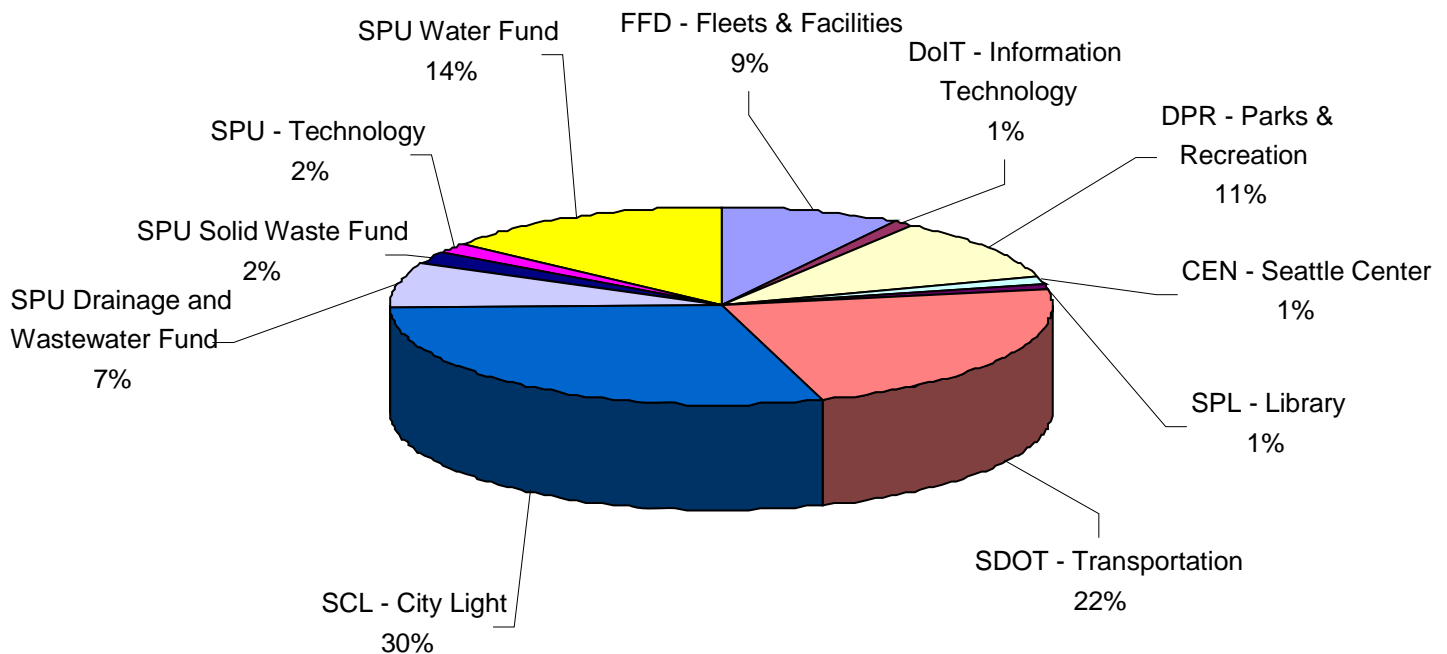
EXPENDITURES: WHERE THE MONEY GOES (CONTINUED)

A portion of the City's budget is capital spending. The Capital Improvement Program (CIP) describes the City's investments in rehabilitation, restoration, improvements, and additions to the City's capital facilities.

Projects in the CIP cover a wide range of capital projects, including construction of new libraries, street repairs, park restorations, and work on electrical substations. The CIP covers the six-year planning horizon for 2006-2011. It is updated each year. The CIP document is submitted to the City Council for adoption along with the City's annual budget.

The following chart shows proposed CIP expenditures by department for 2006.

2006 Proposed CIP by Department - \$519 million



ECONOMIC CHALLENGES AHEAD

Despite the surplus expected for 2006, Mayor Nickels believes City government needs to remain disciplined as several economic challenges loom on the horizon. Upcoming economic challenges facing Seattle include:

- Potential federal cuts of several million dollars in community development block grant funds, starting in 2007;
- The loss of \$18 million annually in B&O tax revenues starting in 2008 because of state legislation;
- The need for up to \$9 million in 2009 to meet ongoing operations and maintenance needs with the completion of the projects funded by the Pro Parks Levy; and
- Economists' prediction of an economic downturn may come sooner than expected because of rising fuel prices and the effect of Hurricane Katrina.

Despite the expected challenges, the City's long-term fiscal health is good and it has more than adequate reserves to meet its long-term obligations. The City's very high credit rating was not changed by the rating agencies despite the severe recession of 2001-2003.

THE PRIORITIES **GET SEATTLE MOVING**

Improving transportation is one of the Mayor Nickels' highest priorities. The 2006 Proposed Budget maintains all existing transportation programs and funds significant new capital projects. Highlights include:

- \$5.2 million of REET and \$700,000 of new gas tax for street resurfacing, which will help pave about 76 lane-miles in 2006.
- \$500,000 for a new sidewalk program to focus on parts of Seattle without sidewalks. The Seattle Department of Transportation (SDOT) has developed new approaches to sidewalk construction that dramatically reduce costs in areas that do not require significant investments in drainage infrastructure. This investment will be targeted to high pedestrian traffic areas and is expected to produce six to eight blocks of new sidewalks.
- \$600,000 to restore funding levels for bridge painting.
- \$360,000 for pedestrian and bicycle improvements in the South Lake Union neighborhood.
- \$1 million of General Fund support for King County's replacement of the waterfront trolley maintenance base.



The Proposed Budget also continues the City's support for the replacement of the Alaskan Way Viaduct and Seawall. In addition to a debt-financed capital budget of \$5.2 million, funding is provided for Center City traffic coordination and to begin to plan capital investments to improve traffic circulation when the Viaduct project is under way.

THE PRIORITIES **GET SEATTLE MOVING (CONTINUED)**

Despite the strong commitment to transportation made in the 2006 Budget, the City of Seattle and other Washington cities face a growing crisis in transportation funding. In May 2004, the Citizens' Transportation Advisory Committee presented a report to the Mayor and City Council describing the backlog of transportation projects and calling for new funding sources for local transportation. Seattle



has lost more than \$18 million in transportation revenue annually due to the passage of Initiative 776 and court invalidation of the street utility. Some additional revenue sources will be needed to prevent further growth in maintenance backlogs and to address major infrastructure projects.

THE PRIORITIES **KEEP OUR NEIGHBORHOODS SAFE**

Seattle Fire Department – 15 firefighters added

The Proposed Budget adds \$1.3 million to the Fire Department to hire 15 firefighters, increasing the number of four-person crews ready to respond to emergencies. The new four-person crews – a top priority for fire fighters – would be deployed at the Green Lake, Greenwood and Madison Valley fire stations when the recruits complete training in the second quarter of 2006. Only three stations have just three-person engine crews and they are the ones slated to receive the fourth firefighter. Fifteen firefighters will need to be hired to ensure one additional staff member is on duty at these stations at all times.



Seattle Police Department – 25 police officers hired

The 2006 Proposed Budget reflects implementation of Mayor Nickels' proposal to add 25 police officers starting in mid-2005, which was approved by the City Council in June. These officers will complete training in early 2006 and will be deployed to the highest priority areas of the city.

In addition, several capital investments are proposed to support the Police Department:

- Slightly more than \$1 million is provided to continue placing video cameras in all patrol cars and start a reserve account to pay for replacement of cameras at the end of their useful lives.
- Faster replacement of bullet-proof vests will be possible by adding \$150,000 for this purpose.
- The hand-held ticketing devices used by parking enforcement officers have reached the end of their useful lives and a total of \$1.5 million is provided for replacement.

THE PRIORITIES **KEEP OUR NEIGHBORHOODS SAFE (CONTINUED)**

Pedestrian Safety

The 2006 proposed budget includes about \$460,000 for a one-year pilot program to install automatic cameras that will catch motorists who threaten drivers and pedestrians by running red lights. Using sensors at the intersection, the digital cameras photograph the license plates of cars that run a red light. A Seattle police officer will review each violation and, if approved, a \$101 citation will be mailed to the vehicle's registered owner. The stepped-up enforcement will encourage drivers to be more careful when passing through the intersections. The four intersections selected for the pilot program will be based on traffic safety.

Fire Facilities and Emergency Response Levy

The 2006-2011 Capital Improvement Program shows further progress in implementing the 2003 Fire Facilities and Emergency Response levy.

Construction will begin on several new or remodeled fire stations during 2006, including the new Fire Station 10 complex that also houses the Emergency Operations Center and Fire Alarm Center. Supplemental legislation in mid-2005 added \$6 million of REET for this project, of which \$1 million will cover increases in construction material costs, \$1 million will be used to improve the environmental sustainability of the facility, and \$4 million will strengthen the neighboring Yesler Way overpass and build foundation components for a future Fire Department headquarters at the site.

THE PRIORITIES

BUILD STRONG FAMILIES AND HEALTHY COMMUNITIES

One of Mayor Nickels' highest priorities is supporting Seattle's most vulnerable populations – children, the poor, the homeless and the hungry. The 2006 Proposed Budget contains many initiatives in this area:

- Funding levels for direct human services are increased significantly for 2006. The two largest additions are \$1 million for the operating costs of Connections, the new homeless hygiene center located on Third Avenue, and \$294,000 for a variety of programs to improve services for residents of South Park. The Fleets and Facilities Department also receives \$30,000 for operation of an emergency, severe-weather shelter in City Hall.
- About \$2.4 million is provided for the Office of Housing to support construction of low-income housing in the South Lake Union neighborhood.



Mayor Nickels' 2006 Proposed Budget also supports efforts to build vibrant communities throughout the city. Here are a few highlights:

- Additional funding is provided for two news arts initiatives:
 - \$50,000 to support planning for the Alaska Yukon Pacific Centennial and to support heritage organizations.
 - \$150,000 to continue and expand arts programming at City Hall, which has proven to be a popular location for performers and the public.
- Several actions in the Proposed Budget support the Mayor's Green Seattle initiative. Most notably, the Mayor signed an Executive Order requiring two-for-one replacement of any trees removed by City maintenance or development projects. An additional \$170,000 for tree plantings is provided in the Mayor's 2006 Proposed Budget to pay for this order as it affects projects at Occidental and Freeway parks.

THE PRIORITIES
BUILD STRONG FAMILIES AND HEALTHY COMMUNITIES
(CONTINUED)

- The City's 28-acre Soundway property in West Seattle will be preserved as open space. Last year, the City had decided to sell part of the property to help support three community projects: Asian Counseling and Referral Service, the Colman School - African American Heritage Museum and the Wing Luke Museum. Thanks to Seattle's improving local economy and a grant from the state, the Mayor is no longer faced with a choice between preserving open space and supporting worthwhile community projects - he can do both.
- The Proposed Budget includes \$227,000 to add staffing and expand hours at the Seattle Animal Shelter, allowing the Shelter to be open seven days per week, thereby increasing animal adoptions. An additional \$186,000 is added to restore staffing for off-leash enforcement in parks.
- The Mayor's 2006 proposed budget includes \$695,000 to support the renovation of the historic Georgetown City Hall.



THE PRIORITIES **CREATE JOBS AND OPPORTUNITIES FOR ALL**

Mayor Nickels has identified economic development efforts as a key to improving the Seattle's employment base and revenue sources.

Mayor Nickels has proposed tax relief for about 3,000 small businesses across the city in 2006 as part of his ongoing effort to spur economic growth and maintain healthy business districts in all

neighborhoods. The Mayor plans to raise the threshold for the amount of gross income a business earns before paying business and occupation (B&O) taxes in Seattle next year to \$75,000 from the current \$50,000. Seattle collected about \$118 million in B&O taxes in 2005. With an improving local economy, the City expects an increase in B&O tax revenues. The expected revenue loss from the higher threshold on B&O tax revenues is about \$640,000, less than 1 percent of the total. Seattle has not adjusted the tax threshold since 1994. The raised threshold offsets the effect of inflation since that time.

New initiatives are targeted to improving neighborhoods that are slated to receive significant growth, including Center City, Southeast Seattle, South Lake Union, and Northgate.

The Department of Planning and Development (DPD) and SDOT are working on a variety of developer fees to support low-income housing, open space, and transportation improvements in growing areas. Additional General Fund support is provided to DPD in the 2006 Proposed Budget to continue this work. DPD is also continuing its work on code simplification and waterfront planning.



THE PRIORITIES
CREATE JOBS AND OPPORTUNITIES FOR ALL
(CONTINUED)

The Office of Policy and Management (OPM) will lead work on a transit-oriented development strategy for Southeast Seattle. This will ensure land use and zoning requirements support appropriate development that will be triggered by the construction of the Sound Transit light rail line.

OPM will continue its work to coordinate construction impacts in the Northgate neighborhood. The 2006 Proposed Budget also includes capital funding for transportation and drainage projects in that area.



Access to broadband technology is increasingly important for economic development and helps residents obtain information and programming. The Department of Information Technology receives \$205,000 in the Proposed Budget to continue studies of this technology to see if there is vendor interest in using an expanded City-owned fiber optic network to offer broadband services.